

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Lake Odessa	County Ionia
Fiscal Year End 2-28-07	Opinion Date 8-8-07	Date Audit Report Submitted to State 8-30-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

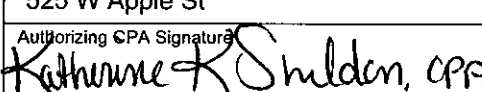
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112, Single Audit	
Certified Public Accountant (Firm Name) Walker, Fluke & Sheldon, PLC		Telephone Number 269-945-9452	
Street Address 525 W Apple St		City Hastings	State MI
Zip 49058		License Number 1101023575	
Authorizing CPA Signature 		Printed Name Katherine K Sheldon, CPA	

VILLAGE OF LAKE ODESSA
FINANCIAL STATEMENTS
For the year ended February 28, 2007

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WALKER, FLUKE & SHELDON, PLC
CERTIFIED PUBLIC ACCOUNTANTS

525 W. Apple Street
Hastings, MI 49058
Phone (269) 945-9452
Fax (269) 945-4890

Christopher J. Fluke, C.P.A.
Katherine K. Sheldon, C.P.A.

1971 S. State Road
Ionia, MI 48846
Phone (616) 522-0792
Fax (616) 522-0873

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Odessa, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Odessa, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Lake Odessa, Michigan, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2007, on our consideration of the Village of Lake Odessa, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Lake Odessa's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Lake Odessa, Michigan. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan
August 8, 2007

Walker, Fluke & Sheldon, PLLC

Village of Lake Odessa Management Discussion and Analysis

As the Village Council of the Village of Lake Odessa, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of Village of Lake Odessa for the fiscal year ended February 28, 2007. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Village. We encourage readers to consider this information in conjunction with the letter or transmittal, which begins on page 1, and the financial statements, which begin on page 7.

Financial Highlights

- The assets of Village of Lake Odessa exceeded its liabilities at the close of the most recent fiscal year by \$6,136,804 (net assets) compared to \$3,096,536 last year. Of this amount, \$970,403 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,040,268 compared to \$740,691 last year.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,204,832, an increase of \$267,504 compared to an ending fund balance of \$937,328, an increase of \$94,806 from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$575,246 or 82.90% of total general fund expenditures. Last year the unreserved fund balance for the general fund was \$505,595 or 74.60% of total general fund expenditures. The Village is in a strong financial position to meet unexpected emergencies, uncertainties at the State level or the general slowdown of the economy.

Overview of the Financial Statements

The Village of Lake Odessa's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Village's financial position is improving or deteriorating.

The statement of activities presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., state shared revenue).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, highways and streets, recreation and cultural and health and welfare.

The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Lake Odessa, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: government funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end

of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village of Lake Odessa maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets, Local Streets and Road Fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 9-11 of this report.

Proprietary funds. The Village maintains one proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for the Water Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, of which is considered to be a major fund of the Village. The proprietary fund financial statements can be found on pages 12-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are available to support the Village's own programs. The fiduciary fund financial statement can be found on page 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 16-27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Village adopts an annual budget for its general fund, major street fund and local street fund. Within the required supplementary information, a budget comparison statement has been provided for these funds to demonstrate compliance with the budget.

Required supplementary information can be found on pages 28-31 of this report.

Individual fund statements and schedules are presented immediately following the required supplementary information on budgets on pages 32-35.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Lake Odessa, assets exceeded liabilities by \$6,136,804 at the close of the most recent fiscal year.

\$970,403 of the Village's net assets (15.81 percent) reflects its unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. An additional portion of the Village's net assets (6.24 percent) reflects restricted net assets (\$382,773), which are resources that are subject to external restrictions on how they may be used. The remaining portion of the Village's net assets (77.95 percent) reflects its investment in capital assets (\$4,783,628) (e.g. land, buildings, equipment and furniture and fixtures). The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Village of Lake Odessa's Condensed Financial Data

	Governmental		Business-Type	
	2007	2006	2007	2006
Current and Other Assets	\$ 1,411,432	\$ 952,585	\$ 371,486	\$ 514,954
Capital Assets	2,895,900	434,472	3,488,375	1,789,123
Total Assets	<u>4,307,332</u>	<u>1,387,057</u>	<u>3,859,861</u>	<u>2,304,077</u>
Short-Term Liabilities	229,005	38,294	306,076	415,126
Long-Term Liabilities	1,054,654	35,589	440,654	105,589
Total Liabilities	<u>1,283,659</u>	<u>73,883</u>	<u>746,730</u>	<u>520,715</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	1,818,841	386,460	2,964,787	1,606,111
Restricted	382,773	244,926	-	-
Unrestricted	822,059	681,788	148,344	177,251
Total Net Assets	<u>\$ 3,023,673</u>	<u>\$ 1,313,174</u>	<u>\$ 3,113,131</u>	<u>\$ 1,783,362</u>
Program Revenues				
Charges for Services	\$ 23,921	\$ 19,984	\$ 424,137	\$ 389,947
Operating Grants and Contributions	157,696	157,374	-	-
Capital Grants and Contributions	1,487,687	-	1,281,691	471,002
General Revenues				
Property Taxes	669,679	639,978	-	-
Licenses and Permits	8,850	9,831	-	-
State Grants	239,048	246,522	-	-
Investment Income	49,349	16,584	8,040	8,295
Other	10,150	27,845	-	-
Gain on Disposal of Fixed Assets	2,001	-	-	-
Total Revenues	<u>2,648,381</u>	<u>1,118,118</u>	<u>1,713,868</u>	<u>869,244</u>
Program Expenses				
Governmental Activities				
Governing Body	28,661	28,615	-	-
General Government	166,098	164,994	-	-
Public Safety	332,089	328,766	-	-
Public Works	330,476	237,079	-	-
Recreational and Cultural	46,329	54,312	-	-
Interest and fiscal charges	34,229	2,217	-	-
Other	-	-	-	-
Business-Type Activities				
Water	-	-	363,830	420,513
Interest and fiscal charges	-	-	20,269	10,175
Total Expenses	<u>937,882</u>	<u>815,983</u>	<u>384,099</u>	<u>430,688</u>
Change in Net Assets	<u>\$ 1,710,499</u>	<u>\$ 302,135</u>	<u>\$ 1,329,769</u>	<u>\$ 438,556</u>

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

Governmental activities. Governmental activities increased the Village's net assets by \$1,710,499, mainly due to the large capital grants and contributions received from the numerous road projects and controlled responsible spending by the Village Council.

Business-Type activities. Business-type activities increased the Village's net assets by \$1,329,769 mainly due to the large capital grants and contributions received for the water projects.

Financial Analysis of the Village's Funds

As noted earlier, the Village used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,204,832, an increase of \$267,504. Last year, the Village's governmental funds combined ending fund balance was \$937,328, which was an increase of \$94,806.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$575,246 and the total fund balance was \$640,968. Unreserved fund balance represents 82.90% of the total general fund expenditures.

The fund balance of the Village's general fund increased by \$93,832 during the current fiscal year, mainly due to increases in revenue and controlled spending by the council.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the Village's water fund reported unrestricted net assets of \$148,344. The Water Fund had an increase in net assets of \$1,329,769.

General Fund Budgetary Highlights

There were no changes between the original and amended budget for revenues and only minor changes between the original and amended budget for expenditures.

During the year, however, revenues exceeded budgetary estimates, and expenditures were less than budgetary estimates.

Capital Assets

The Village's investment in capital assets for its governmental activities as of February 28, 2007, amounts to \$2,895,9000 (net of accumulated depreciation). This investment in capital assets includes: land, buildings, improvements, equipment and furniture and fixtures.

Major capital asset events during the current fiscal year included a generator, computers and infrastructure on fourth street and bonanza road. Details of the Village's capital assets are continued in the notes to the financial statements on pages 23 and 24.

Long-Term Debt

At the end of the current fiscal year, the Village had total bonded debt outstanding of \$1,520,000 and general obligation debt of \$80,647. The Village's debt represents bonds secured by specified revenue sources, equipment and compensated absences, respectively.

The Village's Outstanding Debt General Obligation and Revenue Bonds

	Governmental-Type Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Primary Government:						
Revenue Bonds	\$ 1,032,000	\$ -	\$ 488,000	\$ 135,000	\$ 1,520,000	\$ 135,000
Compensated Absences	9,471	10,614	-	-	9,471	10,614
Equipment Note	35,588	48,011	35,588	48,011	71,176	96,022
Total	<u>\$ 1,077,059</u>	<u>\$ 58,625</u>	<u>\$ 523,588</u>	<u>\$ 183,011</u>	<u>\$ 1,600,647</u>	<u>\$ 241,636</u>

The Village's debt increased by \$1,359,311 during the current fiscal year. The increase was mainly attributable to bonds for the street and water projects.

Additional information on the Village's long-term debt can be found on pages 25-26 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

All indications from the legislature regarding revenue sharing for this fiscal year remain optimistic and should remain the same as last year. The Village's millage rate remains the same. The taxable value will increase, thus bringing in more tax revenue. The Village has completed many major street and infrastructure project over the past twelve months including a downtown streetscape project and the Sunnyfresh infrastructure project that includes a major upgrade to the water and sewer system. The Village has received an improved "I.S.O." rating as a result of the water supply upgrades. The Village has continued to receive multiple Community Development Block Grant funds that have made these projects possible. The Village and the D.D.A. are currently undertaking a total of three (3) separate "Façade Improvement Projects" made possible with C.D.B.G. funding through M.S.H.D.A. paying 50% of the funding. There are no other major infrastructure improvement projects planned for this current fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Village of Lake Odessa's finances for all those with an interest in the village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the (Village Manager/Finance Director), Village of Lake Odessa, 839 Fourth Ave, Lake Odessa, MI 48849. 616-374-7110.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
February 28, 2007

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Cash and Cash Equivalents	\$ 334,949	\$ 117,365	\$ 452,314	\$ 3,151
Investments	128,079	218,357	346,436	-
Receivables (Net)				
Taxes - Delinquent	23,590	-	23,590	-
Accounts	-	62,049	62,049	-
Other	3,247	194,375	197,622	125,907
Due From State	88,114	-	88,114	-
Due From Other Funds	35,702	-	35,702	-
Internal Balances	220,660	(220,660)	-	-
Restricted Assets	577,091	-	577,091	-
Capital Assets (Net of Accumulated Depreciation)	<u>2,895,900</u>	<u>3,488,375</u>	<u>6,384,275</u>	<u>-</u>
Total Assets	<u>4,307,332</u>	<u>3,859,861</u>	<u>8,167,193</u>	<u>129,058</u>
LIABILITIES				
Accounts Payable	153,477	215,528	369,005	124,285
Accrued Liabilities	17,421	7,614	25,035	-
Due to Other Funds	35,702	-	35,702	-
Noncurrent Liabilities				
Due Within One Year	22,405	82,934	105,339	-
Due In More Than One Year	<u>1,054,654</u>	<u>440,654</u>	<u>1,495,308</u>	<u>-</u>
Total Liabilities	<u>1,283,659</u>	<u>746,730</u>	<u>2,030,389</u>	<u>124,285</u>
NET ASSETS				
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,818,841	2,964,787	4,783,628	-
Restricted for Roads	382,773	-	382,773	-
Unrestricted	<u>822,059</u>	<u>148,344</u>	<u>970,403</u>	<u>4,773</u>
Total Net Assets	<u>\$ 3,023,673</u>	<u>\$ 3,113,131</u>	<u>\$ 6,136,804</u>	<u>\$ 4,773</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Primary Government								
Governmental Activities								
Governing Body	\$ 28,661	\$ -	\$ -	\$ -	\$ (28,661)	\$ -	\$ (28,661)	\$ -
General Government	166,098	7,726	-	-	(158,372)	-	(158,372)	-
Public Safety	332,089	8,468	-	-	(323,621)	-	(323,621)	-
Public Works	330,476	1,466	155,649	1,487,687	1,314,326	-	1,314,326	-
Recreational and Cultural	46,329	6,261	2,047	-	(38,021)	-	(38,021)	-
Interest and Fiscal Charges	34,229	-	-	-	(34,229)	-	(34,229)	-
Total Governmental Activities	<u>937,882</u>	<u>23,921</u>	<u>157,696</u>	<u>1,487,687</u>	<u>731,422</u>	<u>-</u>	<u>731,422</u>	<u>-</u>
Business-Type Activities								
Water	363,830	424,137	-	1,281,691	-	1,341,998	1,341,998	-
Interest and Fiscal Charges	20,269	-	-	-	-	(20,269)	(20,269)	-
Total Business-Type Activities	<u>384,099</u>	<u>424,137</u>	<u>-</u>	<u>1,281,691</u>	<u>-</u>	<u>1,321,729</u>	<u>1,321,729</u>	<u>-</u>
Total Primary Government	<u>\$ 1,321,981</u>	<u>\$ 448,058</u>	<u>\$ 157,696</u>	<u>\$2,769,378</u>	<u>731,422</u>	<u>1,321,729</u>	<u>2,053,151</u>	<u>-</u>
Component Unit								
Downtown Development Authority	4,327	-	4,160	-				(167)
Total Component Unit	<u>\$ 4,327</u>	<u>\$ -</u>	<u>\$ 4,160</u>	<u>\$ -</u>				<u>\$ (167)</u>
General Revenues								
Taxes and Penalties					669,679	-	669,679	4,882
Licenses and Permits					8,850	-	8,850	-
State Grants					239,048	-	239,048	-
Investment Income					49,349	8,040	57,389	23
Other					10,150	-	10,150	35
Total General Revenue					<u>977,076</u>	<u>8,040</u>	<u>985,116</u>	<u>4,940</u>
Gain on Disposal of Fixed Assets					<u>2,001</u>	<u>-</u>	<u>2,001</u>	<u>-</u>
Change in Net Assets					1,710,499	1,329,769	3,040,268	4,773
Net Assets-Beginning					<u>1,313,174</u>	<u>1,783,362</u>	<u>3,096,536</u>	<u>-</u>
Net Assets-Ending					<u>\$ 3,023,673</u>	<u>\$ 3,113,131</u>	<u>\$ 6,136,804</u>	<u>\$ 4,773</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENTAL FUNDS BALANCE SHEET
February 28, 2007

					Total Governmental Funds
ASSETS	General	Major Streets	Local Streets	Road Fund	
Cash and Cash Equivalents	\$ 278,484	\$ 36,572	\$ 19,893	\$ 388,873	\$ 723,822
Investments	43,273	84,806	-	175,891	303,970
Receivables					
Taxes	23,590	-	-	10,572	34,162
Other	3,247	-	-	1,755	5,002
Due From State	73,187	11,163	3,764	-	88,114
Due From Other Funds	<u>225,608</u>	<u>19,277</u>	<u>11,477</u>	<u>-</u>	<u>256,362</u>
 Total Assets	 <u>\$ 647,389</u>	 <u>\$ 151,818</u>	 <u>\$ 35,134</u>	 <u>\$ 577,091</u>	 <u>1,411,432</u>
 LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ 153,477	\$ 153,477
Accrued Liabilities	1,443	-	-	15,978	17,421
Due To Other Funds	<u>4,978</u>	<u>5,861</u>	<u>-</u>	<u>24,863</u>	<u>35,702</u>
 Total Liabilities	 <u>6,421</u>	 <u>5,861</u>	 <u>-</u>	 <u>194,318</u>	 <u>206,600</u>
 Fund Balances					
Reserved	-	-	-	-	-
Designated	65,722	-	-	-	65,722
Unreserved-Undesignated	<u>575,246</u>	<u>145,957</u>	<u>35,134</u>	<u>382,773</u>	<u>1,139,110</u>
 Total Fund Balances	 <u>640,968</u>	 <u>145,957</u>	 <u>35,134</u>	 <u>382,773</u>	 <u>1,204,832</u>
 Total Liabilities and Fund Balances	 <u>\$ 647,389</u>	 <u>\$ 151,818</u>	 <u>\$ 35,134</u>	 <u>\$ 577,091</u>	

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets:**

Capital assets and amortized assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

Governmental capital assets	\$3,713,787	
Less: Accumulated Depreciation	<u>817,887</u>	2,895,900

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Bonds Payable	(1,032,000)	
Notes Payable	(35,588)	
Accumulated Vacation and Sick Leave	<u>(9,471)</u>	(1,077,059)

Net Assets of Governmental Activities		<u>\$ 3,023,673</u>
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The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended February 28, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes and Penalties	\$ 464,075	\$ -	\$ -	\$ 205,604	\$ 669,679
Licenses and Permits	8,850	-	-	-	8,850
Federal Grants	-	-	-	1,234,568	1,234,568
State Grants	239,048	116,421	39,228	171,000	565,697
Contributions From Other Local Units	-	-	-	49,113	49,113
Fines and Forfeitures	2,912	-	-	-	2,912
Interest and Rentals	37,639	4,069	37	7,604	49,349
Other Revenue	<u>33,206</u>	<u>-</u>	<u>-</u>	<u>33,006</u>	<u>66,212</u>
Total Revenues	<u>785,730</u>	<u>120,490</u>	<u>39,265</u>	<u>1,700,895</u>	<u>2,646,380</u>
Expenditures					
Current					
Governing Body	28,661	-	-	-	28,661
General Government	161,609	-	-	-	161,609
Public Safety	323,503	-	-	-	323,503
Public Works	110,485	68,032	55,898	2,524,393	2,758,808
Recreation and Cultural	44,675	-	-	-	44,675
Debt Service					
Principal	12,423	-	-	-	12,423
Interest	1,724	-	-	32,505	34,229
Capital Outlay	<u>10,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,819</u>
Total Expenditures	<u>693,899</u>	<u>68,032</u>	<u>55,898</u>	<u>2,556,898</u>	<u>3,374,727</u>
Excess of Revenues Over (Under)					
Expenditures	<u>91,831</u>	<u>52,458</u>	<u>(16,633)</u>	<u>(856,003)</u>	<u>(728,347)</u>
Other Financing Sources (Uses)					
Bond Proceeds	-	-	-	1,032,000	1,032,000
Bond Discount	-	-	-	(9,000)	(9,000)
Bond Issuance Fees	-	-	-	(29,150)	(29,150)
Proceeds from Sale of Assets	2,001	-	-	-	2,001
Operating Transfers In (Out)	<u>-</u>	<u>(23,970)</u>	<u>23,970</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>2,001</u>	<u>(23,970)</u>	<u>23,970</u>	<u>993,850</u>	<u>995,851</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>93,832</u>	<u>28,488</u>	<u>7,337</u>	<u>137,847</u>	<u>267,504</u>
Fund Balance-March 1, 2006	<u>547,136</u>	<u>117,469</u>	<u>27,797</u>	<u>244,926</u>	<u>937,328</u>
Fund Balance-February 28, 2007	<u>\$ 640,968</u>	<u>\$ 145,957</u>	<u>\$ 35,134</u>	<u>\$ 382,773</u>	<u>\$ 1,204,832</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2007

Net Change in Fund Balances - Total Governmental Funds		\$ 267,504
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		1,143
Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond in Statement of Net Assets		38,150
Bond proceeds are revenue in the governmental funds, but not in the statement of activities (where it increases debt)		(1,032,000)
Repayment of note payable principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)		12,423
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	2,500,939	
Less: Current year depreciation	76,388	
Less: Current year amortization	<u>1,272</u>	<u>2,423,279</u>
Change in Net Assets of Governmental Funds Activities		<u>\$ 1,710,499</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
February 28, 2007

	<u>Enterprise Fund Water System</u>	<u>Total</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 117,365	\$ 117,365
Investments	218,357	218,357
Receivables (Net)		
Accounts	62,049	62,049
Other	194,375	194,375
Due From Other Funds	9,158	9,158
Capital Assets (Net of Accumulated Depreciation)	<u>3,488,375</u>	<u>3,488,375</u>
Total Assets	<u>\$ 4,089,679</u>	<u>\$ 4,089,679</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts Payable	\$ 215,528	\$ 215,528
Accrued Liabilities	7,614	7,614
Due to Other Funds	229,818	229,818
Notes Payable	35,588	35,588
Bonds Payable	<u>488,000</u>	<u>488,000</u>
Total Liabilities	<u>976,548</u>	<u>976,548</u>
Net Assets		
Net Assets		
Investment in Capital Assets, Net of Related Debt	2,964,787	2,964,787
Restricted	-	-
Unrestricted	<u>148,344</u>	<u>148,344</u>
Total Net Assets	<u>3,113,131</u>	<u>3,113,131</u>
Total Liabilities and Net Assets	<u>\$ 4,089,679</u>	<u>\$ 4,089,679</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended February 28, 2007

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Operating Revenues		
Charges for Services	\$ 417,366	\$ 417,366
Other Operating Revenue	<u>6,771</u>	<u>6,771</u>
Total Operating Revenues	<u>424,137</u>	<u>424,137</u>
Operating Expenses		
Administration	43,920	43,920
Salaries and Fringe Benefits	182,713	182,713
Supplies	17,621	17,621
Contractual Services	4,522	4,522
Repairs and Maintenance	5,213	5,213
Gasoline	3,641	3,641
Depreciation	57,453	57,453
Dues and Memberships	1,750	1,750
Communication	3,773	3,773
Utilities	39,828	39,828
Insurance and Bonds	4,000	4,000
Water Testing	<u>963</u>	<u>963</u>
Total Operating Expenses	<u>365,397</u>	<u>365,397</u>
Operating Income	<u>58,740</u>	<u>58,740</u>
Nonoperating Revenues (Expenses)		
Interest Earned on Investments	8,040	8,040
Interest Expense	<u>(20,269)</u>	<u>(20,269)</u>
Total Nonoperating Revenues (Expenses)	<u>(12,229)</u>	<u>(12,229)</u>
Income (Loss) Before Contributions and Transfers (Out)		
Capital Contributions	46,511	46,511
Capital Contributions	1,283,258	1,283,258
Federal Grant	440,000	440,000
Subrecipient Grant Pass-Through	<u>(440,000)</u>	<u>(440,000)</u>
Change in Net Assets	1,329,769	1,329,769
Net Assets-March 1, 2006	<u>1,783,362</u>	<u>1,783,362</u>
Net Assets-February 28, 2007	<u>\$ 3,113,131</u>	<u>\$ 3,113,131</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended February 28, 2007

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Cash Flows From Operating Activities:		
Cash Charges for Services	\$ 406,296	\$ 406,296
Other Operating Revenue	6,771	6,771
Administrative Costs	(43,920)	(43,920)
Cash Payments to Employees for Services	(177,146)	(177,146)
Cash Payments to Suppliers for Goods and Services	<u>(81,311)</u>	<u>(81,311)</u>
Net Cash Provided by Operating Activities	<u>110,690</u>	<u>110,690</u>
Cash Flows From Capital and Related Financing Activities:		
Payment of Principal	(77,423)	(77,423)
Payment of Interest	(20,269)	(20,269)
Bond Proceeds	<u>418,000</u>	<u>418,000</u>
Net Cash Used by Capital and Related Financing Activities	<u>320,308</u>	<u>320,308</u>
Cash Flows From Investing Activities:		
Interest Earned on Cash Equivalents and Investments	8,040	8,040
Purchase of Fixed Assets	(648,783)	(648,783)
Federal Grant	440,000	440,000
Subrecipient Grant Pass-Through	(440,000)	(440,000)
Contributed Capital	1,427,991	1,427,991
Construction in Progress	<u>(1,051,680)</u>	<u>(1,051,680)</u>
Net Cash Provided (Used) by Investing Activities	<u>(264,432)</u>	<u>(264,432)</u>
Net Increase in Cash and Cash Equivalents	166,566	166,566
Cash and Cash Equivalents at Beginning of the Year (Including \$210,318 in investments)	<u>169,156</u>	<u>169,156</u>
Cash and Cash Equivalents at End of the Year (Including \$218,357 in investments)	<u>\$ 335,722</u>	<u>\$ 335,722</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 58,740	\$ 58,740
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	57,453	57,453
Decrease (Increase) in Receivables	(11,070)	(11,070)
Increase (Decrease) in Accrued Liabilities	<u>5,567</u>	<u>5,567</u>
Net Cash Provided by Operating Activities	<u>\$ 110,690</u>	<u>\$ 110,690</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
FIDUCIARY FUNDS STATEMENT OF NET ASSETS
February 28, 2007

ASSETS	Trust and Agency
Current Assets	
Cash and Cash Equivalents	\$ -
Total Assets	\$ -
LIABILITIES	
Current Liabilities	
Due to Other Units of Government	\$ -
Total Liabilities	\$ -

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Lake Odessa conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Lake Odessa:

REPORTING ENTITY

The Village operates under an elected council of seven members and provides services to its residents in many areas including police protection, maintenance of Village Streets and other property, water and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance services are provided by outside independently owned entities. The Village is assessed for its respective share of the expenditures.

DISCRETELY PRESENTED COMPONENT UNIT

Downtown Development Authority

The downtown development authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the downtown development authority are appointed by the Village Council. The Village has the ability to significantly influence operations of the downtown development authority.

Complete financial statements for the component unit are not separately reported.

JOINT VENTURES

Fire Department

The Village, together with the Odessa Township, has established a joint fire department under the provisions of Public Act 33 of 1951 and Public Act 7 of 1967. The department is known as the Lake Odessa Fire Department. The Lake Odessa Fire Department operates under an appointed board of five members. Lake Odessa Fire Department receives 55% of its operating budget from Odessa Township and the remaining 45% from the Village of Lake Odessa. All pre-existing property used by the Fire Department that is titled in the name of Odessa Township or Village of Lake Odessa will remain the property of such entity.

The Village's share of the cost of fire protection for the year ended February 28, 2007 totaled \$40,552.

The following information summarizes the activity of the joint venture through March 31, 2007, the most recent audited financial statements available.

Total Assets	\$ 126,764	Total Revenues	\$ 114,894
Total Liabilities	\$ -	Total Expenditures	\$ 81,216
Total Net Assets	\$ 126,764	Increase (Decrease) in Net Assets	\$ 33,678
Total Joint Venture Outstanding Debt	\$ -		

Complete financial statements for Lake Odessa Fire Department can be obtained from:

Lisa Williams
3862 Laurel Rd
Lake Odessa, MI 48849

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Taxes Receivable (Continued) - The 2006 State taxable valuation of the Village totaled \$41,891,764 on which ad valorem taxes levied consisted of 10.9027 mills for Village operating purposes and 4.8862 mills for Village street operations, raising \$456,728 for operating and \$204,687 for street operations. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2006 taxes levied.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Road Fund accounts for the maintenance of the Village's roads. Revenues are primarily derived from property taxes.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are payable through August 31st, and at that time, all unpaid taxes are deemed delinquent and turned over to Ionia County. Ionia County remits payment to the Village of Lake Odessa on all delinquent property taxes.

Restricted Assets - The Village has restricted assets for roads. By restricting a portion of the net assets for a specific purpose, the Village has limited the use of the funds for that specific purpose only. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose than roads.

Capital Assets - Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

<u>General Assets</u>	
Buildings and Improvements	30 to 50 years
Land Improvements	20 years
Equipment	5 to 15 years
Data Processing Equipment	5 years
Furniture	10 years
<u>Infrastructure Assets</u>	
Road	8 to 30 years
Bridges	12 to 50 years
Sidewalks	10 to 30 years
Drains, Curbs, Gutters	8 to 40 years

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Compensated Absences (Vacation and Sick Leave) - Village employees earn from 10-25 vacation days a year. The amount of vacation pay earned is determined according to the length of their employment. Vacation time not taken or paid in lieu of prior to March 1st each year or it is forfeited. Upon termination, all unearned and unused vacation pay is paid at current wage rates.

Sick leave benefits are earned by hourly employees at a rate of 1.85 hours per pay period of service worked. Upon voluntary termination, with eight years of service with the employer and upon submitting written notice at least two weeks prior to termination, the employee shall be paid for 50% of documented accrued sick leave, not to exceed 20 days, at the current wage rate. Employees that are involuntarily discharged are not eligible for payment of unused sick days. Salaried and hourly employees can carry forward 30 days for use in a subsequent year.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations.

Designated Fund Balances - The Village has designated fund balances for equipment purchases, arts commission and community projects. By designating a portion of fund balance for a specific purpose, the Village Council has established a policy that the amounts designated are to be used for a specific purpose. The Village Council can change the amounts so designated if they desire.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted for general and special revenue funds, which are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The village manager submits to the village council a proposed annual budget prior to February 28. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 28, 2007, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

FUND	BUDGET APPROPRIATION	ACTUAL EXPENDITURE	BUDGET VARIANCE
Major Streets			
Street Winter Maintenance	\$ 13,000	\$ 17,959	\$ 4,959
Road Fund			
Street Administration	\$ 17,300	\$ 19,527	\$ 2,227
Street Maintenance	\$ -	\$ 12,630	\$ 12,630
Street Construction	\$ 1,884,500	\$ 2,490,117	\$ 605,617
Sidewalk Replacement	\$ 1,500	\$ 2,119	\$ 619

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Lake Odessa.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated four banks, one savings bank and one credit union for the deposit of the Village of Lake Odessa funds.

The Village's deposits and investments are in accordance with statutory authority.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 452,314	\$ -	\$ 3,151	\$ 455,465
Investments	346,436	-	-	346,436
Restricted Assets	<u>564,764</u>	<u>-</u>	<u>-</u>	<u>564,764</u>
Total	<u>\$ 1,363,514</u>	<u>\$ -</u>	<u>\$ 3,151</u>	<u>\$ 1,366,665</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits	\$ 1,363,234
(Checking and Savings Accounts, Certificates of Deposit)	
Investment in Securities	-
(Mutual Funds and Similar Vehicles)	
Petty Cash and Cash on Hand	<u>280</u>
Total	<u>\$ 1,363,514</u>

Custodial credit risk is the risk that the Village will not be able to recover its deposits in the event of financial institution failure. The Village's deposits are exposed to custodial credit risk if they are not covered by federal depository or securities investor insurance and are uncollateralized. At February 28, 2007, the Village had deposits with a carrying amount of \$1,363,234 and a bank balance of \$1,408,796. Of the bank balance, \$594,112 is covered by federal depository or securities investor insurance, \$814,684 is uninsured and \$0 is collateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of the FDIC and SIPC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not Being Depreciated/Amortized				
Land	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-
Capital Assets Being Depreciated/Amortized				
Buildings	462,780	7,012	-	469,792
Land Improvements	15,400	-	-	15,400
Equipment	482,545	1,616	13,319	470,842
Data Processing Equipment	34,540	2,191	-	36,731
Infrastructure	192,755	2,490,117	-	2,682,872
Amortized Assets	-	38,150	-	38,150
Subtotal	<u>1,188,020</u>	<u>2,539,086</u>	<u>13,319</u>	<u>3,713,787</u>
Less Accumulated Depreciation/Amortization for				
Buildings	385,757	6,525	-	392,282
Land Improvements	468	654	-	1,122
Equipment	328,384	26,757	13,319	341,822
Data Processing Equipment	34,540	110	-	34,650
Infrastructure	4,397	42,342	-	46,739
Amortized Assets	-	1,272	-	1,272
Subtotal	<u>753,546</u>	<u>77,660</u>	<u>13,319</u>	<u>817,887</u>
Net Capital Assets Being Depreciated/Amortized	<u>434,474</u>	<u>2,461,426</u>	<u>-</u>	<u>2,895,900</u>
Governmental Activities Total				
Capital Assets-Net of Depreciation/Amortization	<u>\$ 434,474</u>	<u>\$ 2,461,426</u>	<u>\$ -</u>	<u>\$ 2,895,900</u>

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets not Being Depreciated/Amortized				
Land	\$ 2,150	\$ -	\$ -	\$ 2,150
Construction in Progress	601,002	1,051,680	525,987	1,126,695
Subtotal	603,152	1,051,680	525,987	1,128,845
Capital Assets Being Depreciated/Amortized				
Buildings/Watermains	1,597,698	1,225,512	-	2,823,210
Office Equipment	17,544	-	-	17,544
Equipment	164,756	-	-	164,756
Amortized Assets	-	5,500	-	5,500
Subtotal	1,779,998	1,231,012	-	3,011,010
Less Accumulated Depreciation/Amortization for				
Buildings/Watermains	498,315	41,343	-	539,658
Office Equipment	17,134	410	-	17,544
Equipment	78,578	15,517	-	94,095
Amortized Assets	-	183	-	183
Subtotal	594,027	57,453	-	651,480
Net Capital Assets Being Depreciated/Amortized	1,185,971	1,173,559	-	2,359,530
Business-Type Activities Total				
Capital Assets-Net of Depreciation/Amortized	\$ 1,789,123	\$ 2,225,239	\$ 525,987	\$ 3,488,375

Depreciation/Amortization expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 5,635
Public Safety	8,586
Public Works	61,785
Recreation and Cultural	1,654
Total Government Activities	<u>\$ 77,660</u>
Business-Type Activities	
Water	\$ 57,453
Total Business-Type Activities	<u>\$ 57,453</u>

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007**

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
General	\$ 225,608	General	\$ 4,978
Local Streets	11,477	Major Street	5,861
Water System	9,158	Highway	24,863
Major Streets	<u>19,277</u>	Water System	<u>229,818</u>
	<u>\$ 265,520</u>		<u>\$ 265,520</u>
<u>FUND</u>	<u>TRANSFERS IN</u>	<u>FUND</u>	<u>TRANSFERS OUT</u>
Major Streets	\$ <u>23,970</u>	Local Streets	\$ <u>23,970</u>
	<u>\$ 23,970</u>		<u>\$ 23,970</u>

The interfund receivables and payables represent money owed to the funds for expenses paid by other funds for various expenses funds. Transfers were used to move revenues from the fund that is required to collect them to the fund where expenditures. In addition, the major street fund is allowed under Act 51 to share a portion of its tax revenues with the local street fund.

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

LONG-TERM DEBT (Continued)

The following is a summary of the debt outstanding of the Village of Lake Odessa as of February 28, 2007:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Primary Government						
Governmental Activities						
Other Liabilities						
Equipment Note Payable	4.000%	2010	\$ 48,011	\$ (12,423)	\$ 35,588	\$ 12,934
Compensated Absences			10,614	(1,143)	9,471	9,471
Capital Improvement Bond	4.500%	2026	-	132,000	132,000	-
MTF Bonds	4.400%	2026	-	900,000	900,000	-
Total Governmental Activities			<u>\$ 58,625</u>	<u>\$ 1,018,434</u>	<u>\$ 1,077,059</u>	<u>\$ 22,405</u>
Proprietary Activities						
Water Fund						
Water System Imp Bonds	6.125%-9.50%	2008	\$ 135,000	\$ (65,000)	\$ 70,000	\$ 70,000
Equipment Note Payable	4.000%	2010	48,011	(12,423)	35,588	12,934
Capital Improvement Bond	4.500%	2026	-	418,000	418,000	-
Total Business-Type Activities			<u>\$ 183,011</u>	<u>\$ 340,577</u>	<u>\$ 523,588</u>	<u>\$ 82,934</u>

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End February 28</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 12,934	\$ 49,147	\$ 82,934	\$ 26,746
2009	13,475	48,606	13,475	20,428
2010	42,779	47,340	20,579	19,647
2011	39,800	46,574	15,200	18,901
2012	39,800	43,818	15,200	18,217
2013 and thereafter	<u>918,800</u>	<u>367,541</u>	<u>376,200</u>	<u>152,432</u>
Total	<u>\$ 1,067,588</u>	<u>\$ 603,026</u>	<u>\$ 523,588</u>	<u>\$ 256,371</u>

RETIREMENT SYSTEM

The Village has a defined contribution pension plan covering substantially all of its general employees. The total pension payments for the year ended February 28, 2007 were \$20,842. Monies are invested in individual annuities in the names of the individuals.

Deferred Compensation Plan - The Village offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 401(K). The plan, which is available to all Village employees, permits them to defer a portion on their current salary until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, property and/or rights (until made available to the employee or other beneficiary), are solely the property and rights of the Village (without being restricted to the provision of benefits under the plan), subject only to the claims of the Village's general creditors.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2007

RETIREMENT SYSTEM (Continued)

Deferred Compensation Plan (Continued) - Employee's rights created under the plan are equivalent to those of general creditors of the Village and only in an amount equal to their fair market value on the deferred account maintained with respect to each employee.

In the past, the plan assets have been used for no purpose other than to pay benefits and administrative costs. In addition, the Village believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Summary of the activity in the plan for the year ended February 28, 2007 is as follows:

Balance February 28, 2006	\$ 676,059
Contributions-Employer	20,842
Contributions-Employee	32,693
Net Investment Earnings (Losses)	76,913
Loan Payments	11,200
Change in Outstanding Loan Balance	(9,214)
Withdrawals	(27,670)
Administrative Fees	-
New Loans Issured	-
Balance February 28, 2007	<u>\$ 780,823</u>

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member. The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

At February 28, 2007, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 547,136	\$ 547,136	\$ 547,136	\$ -
Resources (Inflows)				
Taxes and Penalties	426,700	426,700	464,075	37,375
Licenses and Permits	8,400	8,400	8,850	450
State Grants	242,715	242,715	239,048	(3,667)
Fines and Forfeitures	2,600	2,600	2,912	312
Interest and Rentals	6,500	6,500	37,639	31,139
Other Revenue	<u>53,313</u>	<u>53,313</u>	<u>33,206</u>	<u>(20,107)</u>
Total Resources	<u>740,228</u>	<u>740,228</u>	<u>785,730</u>	<u>45,502</u>
Charges to Appropriations (Outflows)				
Governing Body	29,330	30,250	28,661	1,589
General Government	62,288	57,338	56,120	1,218
Manager	37,088	36,288	35,195	1,093
Finance Director	36,475	36,495	35,548	947
Buildings and Grounds	43,000	44,000	34,746	9,254
Public Safety				
Police	269,610	278,010	270,232	7,778
Fire	37,575	40,575	40,552	23
Planning and Zoning	15,000	14,250	12,719	1,531
Public Works				
Street Lighting	33,900	33,900	25,663	8,237
Garage and Maintenance	185,605	184,555	178,596	5,959
Less: Reimbursement from Other Funds	(95,000)	(95,000)	(93,774)	(1,226)
Recreational and Cultural				
Parks	43,757	43,163	40,993	2,170
Library	3,000	3,000	3,000	-
Other	13,950	13,950	682	13,268
Debt Service	14,800	15,250	14,147	1,103
Capital Outlay	<u>27,050</u>	<u>21,810</u>	<u>10,819</u>	<u>10,991</u>
Total Charges to Appropriations	<u>757,428</u>	<u>757,834</u>	<u>693,899</u>	<u>63,935</u>
Excess of Resources Over (Under) Appropriations	<u>(17,200)</u>	<u>(17,606)</u>	<u>91,831</u>	<u>109,437</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Asset	<u>-</u>	<u>-</u>	<u>2,001</u>	<u>2,001</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,001</u>	<u>2,001</u>
Budgetary Fund Balance - February 28, 2007	<u>\$ 529,936</u>	<u>\$ 529,530</u>	<u>\$ 640,968</u>	<u>\$ 111,438</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 117,469	\$ 117,469	\$ 117,469	\$ -
Resources (Inflows)				
State Grants	105,000	105,000	116,421	11,421
Interest and Rentals	<u>3,500</u>	<u>3,500</u>	<u>4,069</u>	<u>569</u>
Total Resources	<u>108,500</u>	<u>108,500</u>	<u>120,490</u>	<u>11,990</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	14,000	14,000	13,456	544
Street Routine Maintenance	35,500	47,000	36,617	10,383
Street Winter Maintenance	13,000	13,000	17,959	(4,959)
Street Construction	<u>19,000</u>	<u>7,500</u>	<u>-</u>	<u>7,500</u>
Total Charges to Appropriations	<u>81,500</u>	<u>81,500</u>	<u>68,032</u>	<u>13,468</u>
Excess of Resources Over (Under) Appropriations	<u>27,000</u>	<u>27,000</u>	<u>52,458</u>	<u>25,458</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	<u>(27,000)</u>	<u>(27,000)</u>	<u>(23,970)</u>	<u>3,030</u>
Total Other Financing Sources (Uses)	<u>(27,000)</u>	<u>(27,000)</u>	<u>(23,970)</u>	<u>3,030</u>
Budgetary Fund Balance - February 28, 2007	<u>\$ 117,469</u>	<u>\$ 117,469</u>	<u>\$ 145,957</u>	<u>\$ 28,488</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 27,797	\$ 27,797	\$ 27,797	\$ -
Resources (Inflows)				
State Grants	33,000	33,000	39,228	6,228
Interest and Rentals	<u>500</u>	<u>500</u>	<u>37</u>	<u>(463)</u>
Total Resources	<u>33,500</u>	<u>33,500</u>	<u>39,265</u>	<u>5,765</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	4,200	4,200	4,074	126
Street Routine Maintenance	45,050	45,450	43,262	2,188
Street Winter Maintenance	<u>10,500</u>	<u>10,500</u>	<u>8,562</u>	<u>1,938</u>
Total Charges to Appropriations	<u>59,750</u>	<u>60,150</u>	<u>55,898</u>	<u>4,252</u>
Excess of Resources Over (Under) Appropriations	<u>(26,250)</u>	<u>(26,650)</u>	<u>(16,633)</u>	<u>10,017</u>
Other Financing Sources (Uses)				
Operating Transfers In	26,250	26,250	23,970	(2,280)
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>26,250</u>	<u>26,250</u>	<u>23,970</u>	<u>(2,280)</u>
Budgetary Fund Balance - February 28, 2007	<u>\$ 27,797</u>	<u>\$ 27,397</u>	<u>\$ 35,134</u>	<u>\$ 7,737</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
For the Year Ended February 28, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning of Year Fund Balance	\$ 244,926	\$ 244,926	\$ 244,926	\$ -
Resources (Inflows)				
Taxes and Penalties	187,300	187,300	205,604	18,304
Federal Grants	380,000	380,000	1,234,568	854,568
State Grants	171,000	171,000	171,000	-
Contributions from Other Local Units	-	-	49,113	49,113
Interest and Rentals	3,500	3,500	7,604	4,104
Other	<u>1,500</u>	<u>1,500</u>	<u>33,006</u>	<u>31,506</u>
Total Resources	<u>743,300</u>	<u>743,300</u>	<u>1,700,895</u>	<u>957,595</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	17,300	17,300	19,527	(2,227)
Street Maintenance	-	-	12,630	(12,630)
Street Construction	1,864,500	1,884,500	2,490,117	(605,617)
Sidewalk Replacement	1,500	1,500	2,119	(619)
Debt Service				
Principal	140,000	120,000	-	120,000
Interest	<u>-</u>	<u>-</u>	<u>32,505</u>	<u>(32,505)</u>
Total Charges to Appropriations	<u>2,023,300</u>	<u>2,023,300</u>	<u>2,556,898</u>	<u>(533,598)</u>
Excess of Resources Over (Under) Appropriations	<u>(1,280,000)</u>	<u>(1,280,000)</u>	<u>(856,003)</u>	<u>423,997</u>
Other Financing Sources (Uses)				
Bond Proceeds	1,280,000	1,280,000	1,032,000	(248,000)
Bond Discount	-	-	(9,000)	(9,000)
Bond Issuance Fees	<u>-</u>	<u>-</u>	<u>(29,150)</u>	<u>(29,150)</u>
Total Other Financing Sources (Uses)	<u>1,280,000</u>	<u>1,280,000</u>	<u>993,850</u>	<u>(286,150)</u>
Budgetary Fund Balance - February 28, 2007	<u>\$ 244,926</u>	<u>\$ 244,926</u>	<u>\$ 382,773</u>	<u>\$ 137,847</u>

VILLAGE OF LAKE ODESSA
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
February 28, 2007

ASSETS	MAJOR STREETS	LOCAL STREETS	ROAD	TOTAL
Cash and Cash Equivalents	\$ 36,572	\$ 19,893	\$ 388,873	\$ 445,338
Investments	84,806	-	175,891	260,697
Receivables				
Taxes	-	-	10,572	10,572
Other	-	-	1,755	1,755
Due From State	11,163	3,764	-	14,927
Due From Other Funds	19,277	11,477	-	30,754
Total Assets	<u>\$ 151,818</u>	<u>\$ 35,134</u>	<u>\$ 577,091</u>	<u>\$ 764,043</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ 153,477	\$ 153,477
Interest Payable	-	-	15,978	15,978
Due to Other Funds	5,861	-	24,863	30,724
Total Liabilities	<u>5,861</u>	<u>-</u>	<u>194,318</u>	<u>200,179</u>
Fund Equity				
Fund Balance				
Unreserved - Undesignated	145,957	35,134	382,773	563,864
Total Fund Equity	<u>145,957</u>	<u>35,134</u>	<u>382,773</u>	<u>563,864</u>
Total Liabilities and Fund Equity	<u>\$ 151,818</u>	<u>\$ 35,134</u>	<u>\$ 577,091</u>	<u>\$ 764,043</u>

VILLAGE OF LAKE ODESSA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS
For the Year Ended February 28, 2007

	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>ROAD</u>	<u>TOTAL</u>
Revenues				
Taxes and Penalties	\$ -	\$ -	\$ 205,604	\$ 205,604
Federal Grants	-	-	1,234,568	1,234,568
State Grants	116,421	39,228	171,000	326,649
Contributions from Other Local Units	-	-	49,113	49,113
Interest and Rentals	4,069	37	7,604	11,710
Other Revenue	-	-	33,006	33,006
Total Revenues	<u>120,490</u>	<u>39,265</u>	<u>1,700,895</u>	<u>1,860,650</u>
Expenditures				
Current				
Public Works				
Administration	13,456	4,074	19,527	37,057
Street Routine Maintenance	36,617	43,262	12,630	92,509
Street Winter Maintenance	17,959	8,562	-	26,521
Street Construction	-	-	2,490,117	2,490,117
Sidewalk Replacement	-	-	2,119	2,119
Debt Service				
Interest	-	-	32,505	32,505
Total Expenditures	<u>68,032</u>	<u>55,898</u>	<u>2,556,898</u>	<u>2,680,828</u>
Excess of Revenues Over (Under)				
Expenditures	<u>52,458</u>	<u>(16,633)</u>	<u>(856,003)</u>	<u>(820,178)</u>
Other Financing Sources (Uses)				
Bond Proceeds	-	-	1,032,000	1,032,000
Bond Discount	-	-	(9,000)	(9,000)
Bond Issuance Fees	-	-	(29,150)	(29,150)
Operating Transfers In	-	23,970	-	23,970
Operating Transfers (Out)	<u>(23,970)</u>	<u>-</u>	<u>-</u>	<u>(23,970)</u>
Total Other Financing Sources (Uses)	<u>(23,970)</u>	<u>23,970</u>	<u>993,850</u>	<u>993,850</u>
Excess of Revenues and Other Sources Over				
(Under) Expenditures and Other Uses	28,488	7,337	137,847	173,672
Fund Balance-March 1, 2006	<u>117,469</u>	<u>27,797</u>	<u>244,926</u>	<u>390,192</u>
Fund Balance-February 28, 2007	<u>\$ 145,957</u>	<u>\$ 35,134</u>	<u>\$ 382,773</u>	<u>\$ 563,864</u>

VILLAGE OF LAKE ODESSA
BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY
February 28, 2007

ASSETS

Cash and Cash Equivalents	\$ 3,151
Receivables	
Other	<u>125,907</u>
Total Assets	<u>\$ 129,058</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	<u>\$ 124,285</u>
Total Liabilities	<u>124,285</u>
Fund Equity	
Fund Balance	
Unreserved - Undesignated	<u>4,773</u>
Total Fund Equity	<u>4,773</u>
Total Liabilities and Fund Equity	<u>\$ 129,058</u>

VILLAGE OF LAKE ODESSA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY
For the Year Ended February 28, 2007

Revenues	
Taxes and Penalties	\$ 4,882
Interest and Rentals	23
Other Revenue	<u>4,195</u>
 Total Revenues	 <u>9,100</u>
 Expenditures	
Supplies	472
Professional Services	3,670
Training	175
Service Charges	<u>10</u>
 Total Expenditures	 <u>4,327</u>
 Excess of Revenues Over (Under)	
Expenditures	4,773
 Fund Balance-March 1, 2006	 <u>-</u>
 Fund Balance-February 28, 2007	 <u>\$ 4,773</u>



WALKER, FLUKE & SHELDON, PLC

CERTIFIED PUBLIC ACCOUNTANTS

525 W. Apple Street
Hastings, MI 49058
Phone (269) 945-9452
Fax (269) 945-4890

Christopher J. Fluke, C.P.A.
Katherine K. Sheldon, C.P.A.

1971 S. State Road
Ionia, MI 48846
Phone (616) 522-0792
Fax (616) 522-0873

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Lake Odessa, as of and for the year ended February 28, 2007, which collectively comprise the Village of Lake Odessa's basic financial statements and have issued our report thereon dated August 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Lake Odessa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Lake Odessa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Lake Odessa's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Lake Odessa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Lake Odessa's financial statements that is more than inconsequential will not be prevented or detected by the Village of Lake Odessa's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Lake Odessa's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be material weaknesses in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Lake Odessa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance of other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Village of Lake Odessa in a separate letter dated August 8, 2007.

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Village's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI
August 8, 2007

Walker, Fluke & Sheldon, PLLC



WALKER, FLUKE & SHELDON, PLC

CERTIFIED PUBLIC ACCOUNTANTS

525 W. Apple Street
Hastings, MI 49058
Phone (269) 945-9452
Fax (269) 945-4890

Christopher J. Fluke, C.P.A.
Katherine K. Sheldon, C.P.A.

1971 S. State Road
Ionia, MI 48846
Phone (616) 522-0792
Fax (616) 522-0873

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

Compliance

We have audited the compliance of Village of Lake Odessa with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended February 28, 2007. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal programs are the responsibility of Village of Lake Odessa's management. Our responsibility is to express an opinion on Village of Lake Odessa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Village of Lake Odessa's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Village of Lake Odessa's compliance with those requirements.

In our opinion, Village of Lake Odessa complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2007.

Internal Control Over Compliance

The management of Village of Lake Odessa is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered Village of Lake Odessa's internal control over compliance with requirements that could have a direct and material effect on the major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

A control deficiency in the Village's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Village's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Village's internal control that might be significant deficiencies or material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of Village of Lake Odessa as of and for the year ended February 28, 2007, and have issued our report thereon dated August 8, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Village of Lake Odessa's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Village Council and management, the pass-through grantors, and the federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Walker, Fluke & Shelden, PLLC

Hastings, MI
August 8, 2007

VILLAGE OF LAKE ODESSA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2007

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Awards Expended
<u>US Department of Housing and Urban Development</u>			
Passed through Michigan Strategic Fund			
Community Development Block Grant-			
Sunny Fresh Infrastructure Project	14.228	MSC-203007-EDIG	\$ 1,075,944
North Fourth Avenue Reconstruction Project	14.228	MSC-205047-ICE	380,000
Fourth Avenue Streetscape Project	14.228	MSC-205007-PW	<u>600,000</u>
Total US Department of Housing and Urban Development			<u>2,055,944</u>
<u>US Department of Transportation</u>			
Passed through Michigan Department of Transportation			
Highway Planning and Construction-			
Fourth Avenue Streetscape	20.205	STP 0634-015	<u>254,568</u>
Total Federal Assistance			<u>\$ 2,310,512</u>

VILLAGE OF LAKE ODESSA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2007

BASIS FOR PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Village of Lake Odessa, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Village provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Sunny Fresh Infrastructure Project	14.228	\$440,000

VILLAGE OF LAKE ODESSA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended February 28, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal controls over financial reporting:
Material weakness(es) identified? X yes no

Reportable condition(s) identified not
considered to be material weaknesses? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes X no

Reportable condition(s) identified not
considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section 510(a)? yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Development Block Grant
Sunny Fresh Infrastructure Project
North Fourth Avenue Reconstruction Project
Fourth Avenue Streetscape Project

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

VILLAGE OF LAKE ODESSA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

2007 - 1 Individual funds are not being balanced on a monthly basis.

Condition

All trial balances Walker, Fluke & Sheldon received were out of balance. As a result adjustments were needed.

Criteria

Each month, computerized reports, from Quickbooks, should be reconciled to ensure each individual fund is in balance. Any variances should be investigated by the finance director before they are provided to the auditor. Diligent preparation and review of all funds help to ensure the financial records of the Village are complete and accurate.

Cause/Effect

All funds were out of balance, requiring additional adjustments.

Recommendation

Each individual fund is setup separately in the Quickbooks accounting software to ensure each fund is always in balance.

Auditee Response

Management is considering the options for recording activity in each individual fund.

2007 - 2 Bank reconciliations are not being done in a timely fashion and are not being reconciled with the corresponding general ledger accounts.

Condition

All bank reconciliations Walker, Fluke & Sheldon received were incomplete and out of balance. As a result adjustments were needed.

Criteria

Each month reconciled bank balances should be reconciled to the general ledger. Any variances should be investigated by the finance director before they are provided to the auditor. Diligent preparation and review of all bank reconciliations help to ensure the financial records of the Village are complete and accurate.

Cause/Effect

Bank accounts were not reconciled with the corresponding general ledger accounts, requiring additional adjustments.

Recommendation

Each bank account should be reconciled with the corresponding general ledger accounts on a monthly basis.

Auditee Response

Management is putting necessary controls in place to correct this.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION III – PRIOR YEAR FINDINGS

None



WALKER, FLUKE & SHELDON, PLC

CERTIFIED PUBLIC ACCOUNTANTS

525 W. Apple Street
Hastings, MI 49058
Phone (269) 945-9452
Fax (269) 945-4890

Christopher J. Fluke, C.P.A.
Katherine K. Sheldon, C.P.A.

1971 S. State Road
Ionia, MI 48846
Phone (616) 522-0792
Fax (616) 522-0873

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

In planning and performing our audit of the financial statements of the Village of Lake Odessa as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lake Odessa's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design and of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The reconciled bank balances are not being reconciled with the corresponding general ledger accounts on a monthly basis.
- Individual funds are not being balanced on a monthly basis.
- The Village does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures.

This report is intended solely for the information and use of the Village Council and management, State of Michigan Department of Treasury, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI
August 8, 2007

Walker, Fluke & Sheldon, PLC



WALKER, FLUKE & SHELDON, PLC

CERTIFIED PUBLIC ACCOUNTANTS

525 W. Apple Street
Hastings, MI 49058
Phone (269) 945-9452
Fax (269) 945-4890

Christopher J. Fluke, C.P.A.
Katherine K. Sheldon, C.P.A.

1971 S. State Road
Ionia, MI 48846
Phone (616) 522-0792
Fax (616) 522-0873

August 8, 2007

To the Village Council
Village of Lake Odessa
Ionia County, MI

We have recently completed an audit of the financial statements of the Village of Lake Odessa, Ionia County, Michigan for the year ended February 28, 2007. During the course of the audit the following items came to our attention, which require further comment.

Budgets Should Be Reviewed On A Periodic Basis

The general appropriations act passed before the beginning of each fiscal year is the legal authority for the Village to spend public moneys. The general appropriations act specifies amounts that may be spent by budget category. The Village does not have legal authority to spend amounts in excess of specific appropriations.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government may not incur expenditures in excess of amounts appropriated. When it appears that more money will be spent than the amount originally appropriated, it is necessary to amend the budget. This can be done at any meeting prior to the fiscal year end and does not require a new public hearing. During the year ended February 28, 2006, the Village's actual expenditures exceeded their appropriations in several categories.

It is recommended that the Village closely monitor the expenditures in relation to amounts appropriated and amend the budget when necessary. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

The Village Has Not Adopted A Credit Card Policy

During the course of the audit, it was noted that the Village has a credit card, but the Village has failed to adopt a credit card policy. This is a repeat comment from the prior year.

P.A. 1998 states that a local unit shall not be a party to a credit card agreement unless the governing body of the local unit has adopted by resolution a written policy that provides several important factors regarding the use and control of the credit card.

It is recommended that the Village prepare and adopt a written credit card policy in accordance with the guidelines set forth in P.A. 1998. This has been discussed with the financial officer and a sample policy has been presented for approval.

Compliance with Bond Covenants

During the course of the audit, the water bond covenants were examined. It was noted that the Village had not opened the required accounts nor had the transfers required under the bond covenants been made to the proper accounts. This is a repeat comment from the prior year.

According to the water system bond covenants several bank accounts should have been opened at the time the bonds were obtained for the deposit of water utility collections. These covenants require the Village to maintain separate accounts and make quarterly transfers to help ensure that the payment of the bond interest and principal each year can be met.

Although the Village will be repaying these bonds in the near future the new bonds will have similar covenants that need to be complied with. It is our recommendation that the Village reviews the covenants and opens the required accounts and makes the required transfers to each account according to these new bond covenants.

Recording Fixed Assets and Construction In Progress

During the course of the audit, it was necessary to scan various expense accounts looking for expenditures relating to the current water system improvements that needed reclassification. This additional work is outside the normal procedures required by an audit and is costly to the Village. This is a repeat comment from the prior year.

Enterprise Fund fixed assets are capitalized in each respective fund because the fixed assets are used in the production of the goods or services provided and sold. The proper accounting and fair presentation of fixed assets used in an enterprise fund, such as water and sewer funds, is very important since the valuation is used to determine the rate structures under which the consumers are charged for the services rendered.

Fixed assets should be recorded at cost. The cost includes not only its purchase price or construction cost, but also other related charges necessary to place the asset in its intended location or condition. These charges would include costs such as freight and transportation charges, site preparation expenditures, engineering and supervisory services, professional fees, interest and insurance during construction, and legal claims directly attributable to asset acquisitions.

Depreciation of these fixed assets must be recorded when the assets are placed into service. Depreciation accounting is an important element of the income-determination process.

It is recommended that the Village record all costs associated with the current water system improvement project to the Construction In Progress general ledger account. Expenditures already incurred in the current fiscal year should be identified and journal entries made to reclassify such items. Upon completion of the project the Construction In Progress account should be closed by a journal entry reclassifying the amount to the proper fixed asset accounts, with depreciation recorded on an annual basis.

Interest Income Should Be Reported in the Appropriate Funds

During the course of the audit, it was noted interest income on pooled money was not being allocated among the different funds making up the money in a timely fashion.

According to generally accepted accounting principles, local units of government are permitted to combine the cash of several funds into one common cash account. However, the finance director's records must clearly reflect the portion of the interest earned and must be prorated among the participating funds.

It is our recommendation that the Village prorate the interest earned on commingled funds to the respective funds at the time the interest is earned in the accounts.

General Ledger Disbursement Posting

During the course of the audit, internal control weaknesses in the expenditure area were noted. Several disbursements were inconsistently posted to the general ledger and coded to incorrect general ledger accounts. This causes inaccurate interim financial statements, which may cause budgeting problems throughout the year. This is a repeat comment from the prior year.

We recommend that the finance director be given the opportunity to consult with outside professionals on a monthly basis for help with posting of items in question, if needed. This can save the Village costly bookkeeping fees incurred during the audit.

Disbursements

During the course of the audit, it was noted, a valid receipt could not substantiate several credit card disbursements, the Village incurred an unlawful expenditure and certain employees were not reimbursing the Village for expenses in a timely fashion. This is a repeat comment from the prior year.

Disbursements made by the Village should be supported by proper documentation. Invoices or contracts should support expenditures for goods or services and be lawful in nature. A signed reimbursement form that specifies the payee, what the expense was incurred for, where the expense occurred, when the expense was incurred and why the expense was incurred should substantiate reimbursements to employees or officials. Applicable invoices or receipts should be attached.

We recommend that the Village obtain proper documentation for all disbursements made. The documentation should be filed in an organized manner that is easily assessable. Employees reimbursing the Village for expenses should be required to in a timely fashion. In addition, the Financial Officer should examine all invoices for validity and lawfulness, and credit card charges should be approved prior to payment.

We would like to take this opportunity to thank the Village for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walter Fluke & Sheldon, PLLC